

VERMONT



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ending JUNE 30, 2008

The picture on the cover of this report is a covered bridge in Cabot Plains, Vermont.
The picture was provided by Sam Pearsons of Lyndonville, Vermont.

STATE OF VERMONT

***COMPREHENSIVE
ANNUAL
FINANCIAL REPORT***

For the fiscal year ending JUNE 30, 2008



James H. Douglas
Governor

Prepared by the Department of Finance and Management

**STATE OF VERMONT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	<u>PAGE</u>
INTRODUCTION (Unaudited)	
Title page.....	1
Table of Contents.....	2 - 4
Letter of Transmittal.....	5 - 7
Organization Chart.....	8 - 9
Selected State Officials.....	10
FINANCIAL SECTION	
Independent Auditor's Report.....	12 - 13
Management's Discussion and Analysis (Unaudited).....	14 - 28
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets.....	32 - 33
Statement of Activities.....	34 - 35
Governmental Funds Financial Statements	
Balance Sheet.....	38 - 39
Reconciliation of Governmental Fund Balances to the Statement of Net Assets - Governmental Activities.....	40
Statement of Revenues, Expenditures and Changes in Fund Balances.....	42 - 43
Reconciliation of Statement of Revenues, Expenditures and Changes In Fund Balances -Governmental Funds to the Statement of Activities - Governmental Activities.....	44
Proprietary Funds Financial Statements	
Statement of Net Assets.....	46 - 47
Statement of Revenues, Expenses and Changes in Net Assets.....	48 - 49
Statement of Cash Flows.....	50 - 51
Fiduciary Funds Financial Statements	
Statement of Fiduciary Net Assets.....	54
Statement of Changes in Fiduciary Net Assets.....	55
Component Units Financial Statements	
Statement of Net Assets.....	58
Statement of Activities.....	59
Notes to the Financial Statements Index.....	61
Notes to the Financial Statements.....	62 - 126

	PAGE
Required Supplementary Information (Unaudited)	
Defined Benefit Pension Plans-Schedule of Funding Progress.....	128
Defined Benefit Pension Plans-Schedule of Employer Contributions.....	129
Other Postemployment Benefit Plans-Schedule of Funding Progress.....	130
Other Postemployment Benefit Plans-Schedule of Employer Contributions.....	130
Budgetary Comparison Schedule-General Fund.....	131 - 132
Budgetary Comparison Schedule-Transportation Fund.....	133
Budgetary Comparison Schedule-Education Fund.....	134
Budgetary Comparison Schedule-Special Fund.....	135 - 136
Budgetary Comparison Schedule-Federal Revenue Fund.....	137
Budgetary Comparison Schedule-Global Commitment Fund.....	138
Budgetary Comparison Schedule-State Health Care Resource Fund.....	139
Budgetary Comparison Schedule-Tobacco Trust Fund.....	140
Budgetary Comparison Schedule-Catamount Fund.....	141
Notes to Required Supplementary Information-Budgetary Reporting.....	142 - 144
Supplementary Information - Combining and Individual Fund Statements and Schedules	
Governmental Funds	
Nonmajor Governmental Funds	
Combining Balance Sheet.....	150 - 153
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances.....	154 - 157
Proprietary Funds	
Nonmajor Enterprise Funds	
Combining Statement of Net Assets.....	160 - 161
Combining Statement of Revenues, Expenses and Changes in Net Assets.....	164 - 163
Combining Statement of Cash Flows.....	164 - 165
Internal Service Funds	
Combining Statement of Net Assets.....	168 - 173
Combining Statement of Revenues, Expenses and Changes in Net Assets.....	174 - 179
Combining Statement of Cash Flows.....	180 - 185
Fiduciary Funds	
Pension and Other Postemployment Benefit Trust Funds	
Combining Statement of Plan Net Assets.....	188 - 189
Combining Statement of Changes in Plan Net Assets.....	190 - 191
Agency Funds	
Combining Statement of Changes in Assets and Liabilities.....	194 - 196
Component Units	
Non-major Component Units	
Combining Statement of Net Assets.....	198 - 199
Combining Statement of Activities.....	200 - 201

	PAGE
STATISTICAL SECTION (Unaudited)	
Statistical Section Contents.....	203
Financial Trends Information	
Table 1 - Net assets by component, last 7 fiscal years.....	204 - 205
Table 2 - Changes in net assets, last 7 fiscal years.....	206 - 209
Table 3 - Fund balances, governmental funds - last 10 fiscal years.....	210 - 211
Table 4 - Changes in fund balances, governmental funds - last 10 fiscal years.....	212 - 213
Revenue Capacity Information	
Table 5 - Personal income and earnings by major industry, last 10 calendar years.....	214 - 215
Table 6 - Personal income tax rates and collections, last 10 calendar years.....	216
Table 7 - Personal income tax filers and liability by income level, calendar years 2006 and 1997.....	217
Debt Capacity Information	
Table 8 - Ratios of outstanding debt by type, last 10 years.....	218
Table 9 - Ratios of general obligation bonded debt outstanding, last 10 fiscal years	219
Demographic and Economic Information	
Table 10 - Demographic and economic statistics.....	220 - 221
Table 11 - Annual average non-farm employment by industry.....	222
Operating Information	
Table 12 - State government full-time equivalent employees by function/program.....	223
Table 13 - Operating indicators by function/program, last 5 years.....	224
Table 14 - Capital asset statistics by function, last 5 years.....	225



State of Vermont

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Agency of Administration

LETTER OF TRANSMITTAL

To the Honorable James H. Douglas, Governor,
The Honorable Brian Dubie, Lieutenant Governor,
Chairs of House Committees on Appropriations, Institutions and Ways and Means,
Senate Committees on Appropriations, Finance and Institutions, and
The Citizens of the State of Vermont

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the State of Vermont for the fiscal year ended June 30, 2008. The Department of Finance and Management prepared this report as required by Title 32, Vermont Statutes Annotated, Section 182(a)(8). By issuing this report by December 31, 2008, the Department has met the State statutory required issuance date. Responsibility for the completeness and fairness of the presentation, including all disclosures, rests with the State of Vermont's Department of Finance and Management. We believe that the accompanying financial statements are accurate and fairly stated in all material respects, and are presented in a manner designed to fairly report the State of Vermont's financial position, results of operations and changes in net assets/fund balances.

I would like to direct your attention toward two important items contained in this CAFR. The first item is the Management and Discussion Analysis (MD&A) that follows the Independent Auditor's Report. This analysis is designed to give you, the reader, an overview of the State's financial position, described in understandable terms, in order to help you better understand the results of operations of your state government. Secondly, I would like to direct your attention to the Basic Financial Statements (BFS) which follow the MD&A. The Basic Financial Statements were prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). They contain government-wide statements that present the State's financial activities in a manner similar to that of a private corporation; fund statements that report governmental, proprietary, fiduciary fund financial activity; component unit financial activity; and note disclosures that explain and enhance the basic financial statements.

For fiscal year 2008, the following new funds are reported for the first time: the fiduciary fund type statements include the new Investment Trust Fund, and the Vermont Municipal Employees' Health Benefit Fund. Please refer to Note 1, Section E for more information regarding these new funds. In addition to the MD&A and BFS, this CAFR includes a Required Supplementary Information (RSI) section, a Supplementary section, and a Statistical section. The RSI section contains a Schedule of Funding Progress for the State's defined benefit pension and other postemployment benefits plans, and Budget to Actual comparison schedules for the State's major governmental funds with Notes reconciling budgetary fund balance to the governmental funds GAAP fund balance. The Supplementary section contains combining fund financial statements for the State's non-major Governmental, Proprietary, and Fiduciary Funds, and for the State's non-major component units. The Statistical section presents data relating to financial trends, revenue and debt capacity, and demographic and operating information about the State of Vermont. It should be noted that the information contained in the RSI and Statistical sections is unaudited.



State Profile

Vermont, known as the Green Mountain State, was first settled by the French in 1666, then by the English in 1690, and joined the Union as the fourteenth State in 1791. Rural in character, the state measures 9,249 square miles of land area, and ranks 49th out of the 50 states in population, with the April 1, 2000 Census count of 608,827. The State capital is Montpelier (population of 8,035 in 2000), and the largest city is Burlington (2000 population of 38,889).

The State Constitution provides for three traditional branches of Government – the Legislative, the Executive, and the Judicial. The Legislative branch is comprised of the House of Representatives (150 members) and the Senate (30 members); all are elected for two-year terms. The Executive branch includes six elected officers – the Governor, Lieutenant Governor, Treasurer, Secretary of State, Auditor of Accounts, and the Attorney General – all elected for two year terms, without term limitations. The Governor is responsible for the faithful execution of all laws and the management of the departments and agencies of the Executive Branch – including the agencies of Administration, Transportation, Natural Resources, Commerce and Community Development, Human Services, the Department of Education, as well as other agencies and departments – through which the functions of the state government are carried out. The Judicial branch of the state is made up of a Supreme Court, and Superior, District, Family, Environmental, and Probate Courts, and the Judicial Bureau. The judges are appointed by the Governor with the advice and consent of the Senate, and serve six-year terms.

The General Fund

The General Fund, which accounts for a significant portion of the State's financial activity, is the State's largest operating fund. It accounts for all revenues and other receipts that are not required by law to be accounted for or deposited in other funds as well as the expenditures associated with these revenues. In fiscal year 2008, general fund tax revenues accounted for 97.4% of total general fund revenues. The three principal tax revenue contributors – the personal income tax, the general fund's portion of the sales and use tax, and the meals and room tax – accounted for 82.8% of general fund total tax revenues or approximately 80.7% of total General Fund revenues. General Fund expenditures used 68.0% of the total revenues, and these expenditures occurred in the following major governmental functional categories: General Government, Protection to Persons and Property, Human Services, Employment and Training, General Education, Natural Resources, Commerce and Community Development and Debt Service. The majority of the remainder of the resources provided from the 2008 General Fund revenues were transferred out to other funds and used for various purposes. Please see Note 3E for a summary of these transfers.

Budget Adoption and Legal Compliance/Budgetary Results

Note 1 to the financial statements describes the State's budgeting process, while the Required Supplementary Information section contains Budget to Actual comparison schedules and associated notes for the General Fund and the five major special revenue funds. These schedules present each fund's original budget, final budget, actual expenditures incurred on a budgetary basis, and the variance between the final budget and actual expenditures incurred. As the adopted budget provides legal control over spending, expenditures cannot exceed amounts appropriated under Vermont law. Budgetary control is exercised by fund within appropriation.

Cash and Investments

Cash deposits are managed by the State in accordance with the provisions of Title 32, Vermont Statutes Annotated, Sections 431-434, which defines the requirements the Treasurer must adhere to when

depositing public monies. For investing purposes, the State Treasurer pools substantially all cash except that which is required to be maintained separately in accordance with legal restrictions. Note 2 provides more detail regarding this important area.

Risk Management

By self-insuring, the State generally assumes substantially all risk associated with Workers' Compensation, Employee Liability, Employee Health and Life, and General Liability under State law. However, the State has minimized its exposure in several areas by either purchasing commercial insurance coverage or by limiting benefit claim amounts.

Independent Audit of These Financial Statements

KPMG, LLP, an independent certified public accounting firm, performed an independent audit of the State's basic financial statements for the fiscal year ended June 30, 2008, with the assistance of the State Auditor's Office. The auditors have issued an unqualified opinion, the most favorable outcome of the audit process. The audit described in the auditor's report is not intended to meet all requirements of the Federal Single Audit Act of 1996. Rather, the Single Audit Report for the State is issued under separate cover.

Acknowledgements

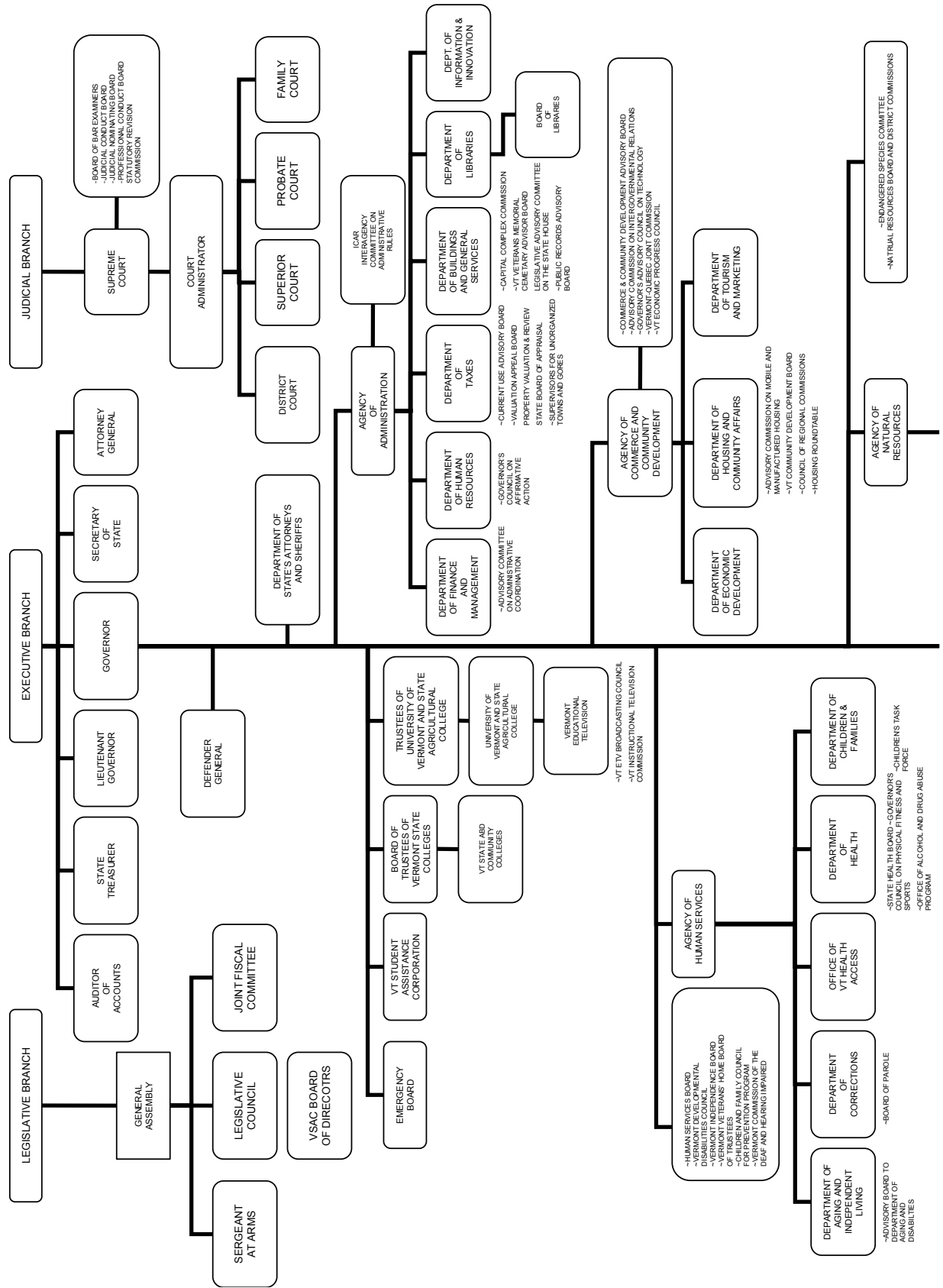
The preparation of this report involved the dedicated work of staff in the Department of Finance and Management, the Office of the State Treasurer, the Office of the Auditor of Accounts, and the support of all State agencies, departments, component units, the Legislature, and the Judiciary. We welcome inquiries concerning this report and the finances of the State of Vermont.

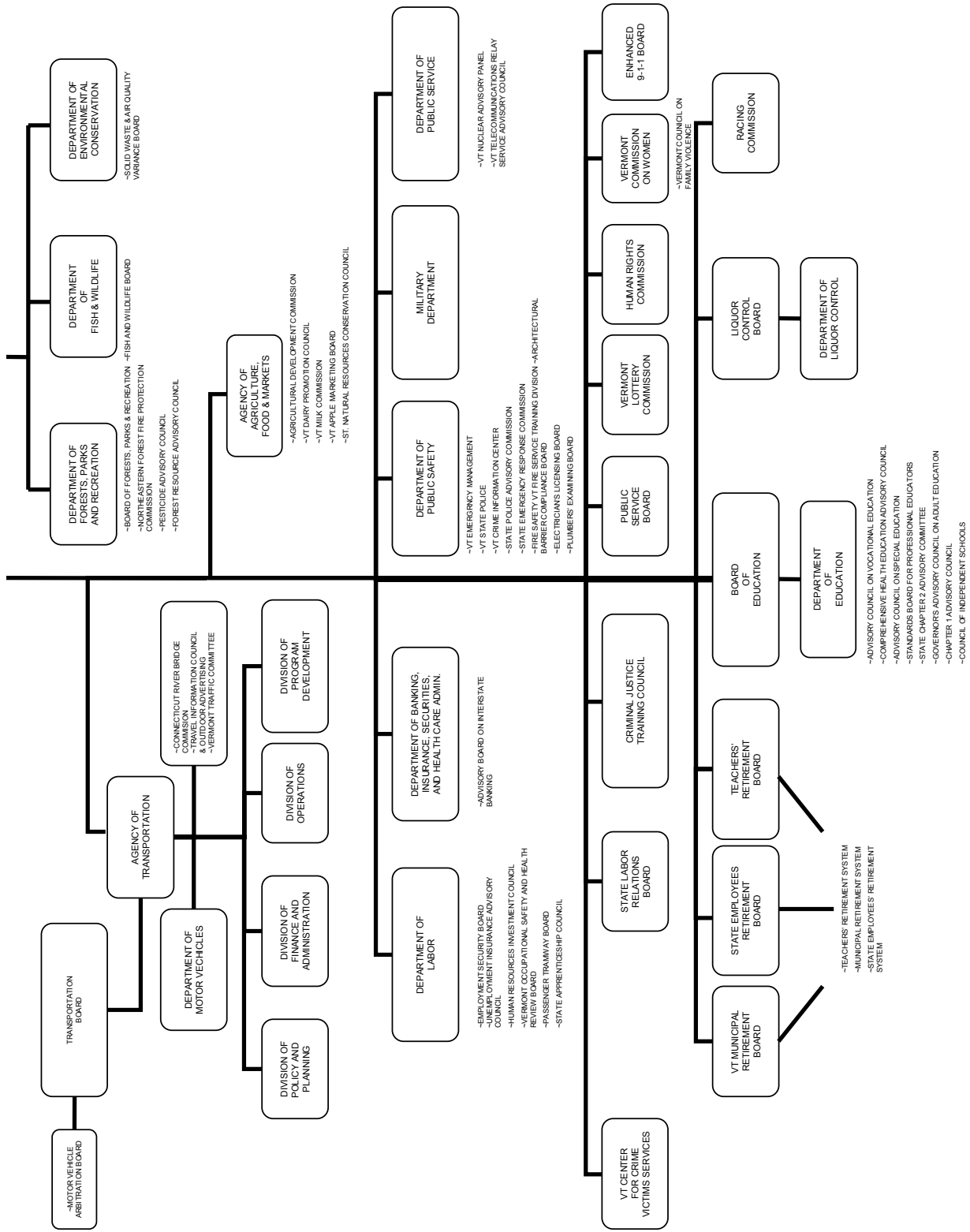
Sincerely,

A handwritten signature in black ink, appearing to read "James B. Reardon".

James B. Reardon, CPA
Commissioner

December 23, 2008





SELECTED STATE OFFICIALS
As of June 30, 2008

EXECUTIVE

James H. Douglas
Governor

Brian L. Dubie
Lieutenant Governor

Deborah L. Markowitz
Secretary of State

William H. Sorrell
Attorney General

Thomas M. Salmon
Auditor of Accounts

George B. "Jeb" Spaulding
State Treasurer

JUDICIAL

Paul L. Reiber
Chief Justice

LEGISLATIVE

Peter Shumlin
President Pro Tempore of the State Senate
(30 Senators)

Gaye Symington
Speaker of the House of Representatives
(150 Representatives)